

Message Text

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PAGE 01 OECD P 09416 01 OF 02 141738Z

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 EA-06 FRB-03 INR-07 NEA-09 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

XMB-02 EURE-00 L-02 FEAE-00 /081 W

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INFO AMEMBASSY HELSINKI

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E.O. 11652: N/A

TAGS: ETRD, OECD, FI

SUBJECT: FINNISH IMPORT DEPOSIT SCHEME

REF: OECD PARIS 07873, 07031, 06722

1. SUMMARY. SECRETARIAT NOTE ON FINNISH SCHEME DOWN-PLAYS OIL COSTS AS FACTOR IN FINNS' PROBLEMS AND EFFECTIVENESS OF IMPORT SCHEME AS SOLUTION, WHILE IMPLYING THAT MORE RESTRAINT OF DOMESTIC DEMAND IS NEEDED. ACTION REQUESTED: INSTRUCTIONS FOR MEETING OF COUNCIL WORKING PARTY, RESCHEDULED FOR APRIL 22. END SUMMARY

2. FOLLOWING IS SUMMARY OF ANALYSIS AND ISSUES SECTIONS OF NOTE PREPARED BY SECRETARIAT FOR MEETING OF COUNCIL WORKING PARTY ON FINNISH IMPORT DEPOSIT SCHEME, NOW SCHEDULED TO TAKE PLACE APRIL 22 INSTEAD OF APRIL 17.

A. ANALYSIS: SECRETARIAT NOTES THAT WHILE OIL PRICE INCREASES CONTRIBUTED TO DETERIORATION IN FINNISH TRADE BALANCE, FINLAND'S TERMS OF TRADE HAVE ON WHOLE NOT SUFFERED GREATLY. INCREASED TRADE DEFICIT IS

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PAGE 02 OECD P 09416 01 OF 02 141738Z

ASCRIBED TO THREE FACTORS: (L) CONTINUED EXPANSION OF

DOMESTIC DEMAND (APPARENTLY STEMMING PRIMARILY FROM PRIVATE SECTOR) WHICH HAD BEEN UNDERESTIMATED BY AUTHORITIES; (2) RAPID GROWTH IN IMPORTS REFLECTING BUNCHING OF DELIVERIES OF SHIPS AND AIRCRAFT, INCREASED PURCHASES OF CONSUMER DURABLES RESULTING FROM 1974 INCOMES SETTLEMENT, AND SPECULATIVE DEMAND ANTICIPATING IMPORT CONTROLS; AND (3) WEAKENING OF DEMAND FOR MAJOR FINNISH EXPORTS. IN ASSESSING IMPACT OF IMPORT DEPOSIT SCHEME, SECRETARIAT IDENTIFIES THREE MAIN DETERMINANTS: PROBABLE EARLY HALT TO SPECULATIVE PURCHASES; MINOR EFFECT OF ADDITIONAL IMPORT COSTS RESULTING FROM SCHEME; AND POSSIBLE LIQUIDITY SHORTAGE FOR IMPORTERS DEPENDING ON AVAILABILITY OF FOREIGN CREDITS AND OTHER DOMESTIC MONETARY DEVELOPMENTS. WHILE SECRETARIAT NOTES FINNS' INTENTION THAT PRICE CONTROL SYSTEM NOT ALLOW COSTS ARISING FROM IMPORT DEPOSIT SCHEME TO BE PASSED THROUGH, PAPER GENERALLY DEFERS JUDGMENT ON EFFECTIVENESS OF OTHER POLICY MEASURES TAKEN OR PLANNED BY GOF.

B. DISCUSSION ISSUES: WHAT ARE MAIN FACTORS BEHIND DETERIORATION IN EXTERNAL ACCOUNTS? WHAT IS THE OUTLOOK FOR EXPORTS, IMPORTS AND THE CURRENT BALANCE IN 1975? TO WHAT EXTENT CAN IMPORTERS REDUCE EFFECTS OF IMPORT DEPOSIT SCHEME BY INCREASING TRADE CREDITS FROM FOREIGN EXPORTERS? WHAT MEASURES TO RESTRAIN DOMESTIC DEMAND HAVE BEEN IMPLEMENTED? WHY WAS IT FELT THAT STRONG MEASURES TO RESTRICT THE GROWTH OF DOMESTIC DEMAND WERE NOT LIKELY TO BE SUFFICIENT TO IMPROVE THE FOREIGN BALANCE? TO WHAT EXTENT WOULD A DEVALUATION OF THE MARKKA IMPROVE THE TRADE BALANCE? HOW LARGE ARE THE UNUSED BORROWING FACILITIES AVAILABLE TO FINLAND? UNDER WHAT CONDITIONS WOULD AN EARLY TERMINATION OF THE DEPOSIT SCHEME BE FEASIBLE? WHAT CRITERIA WERE USED TO DETERMINE THE COMMODITY COVERAGE OF THE DEPOSIT SCHEME AND THE RATE TO BE APPLIED TO EACH COMMODITY?

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PAGE 01 OECD P 09416 02 OF 02 141738Z

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SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

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WHAT IS THE LIKELY EFFECT OF THE SCHEME ON THE
GEOGRAPHICAL PATTERN OF IMPORTS?

2. MISSION COMMENT: IMPLICATION OF SECRETARIAT PAPER IS THAT FINNS ARE GUILTY OF MISMANAGEMENT OF DOMESTIC DEMAND RATHER THAN VICTIMS OF OIL CRISIS, AND CASE FOR THIS INTERPRETATION MIGHT BE EVEN STRONGER IF PAPER GAVE MORE ATTENTION TO INFLATION, EMPLOYMENT, AND EXPORT PERFORMANCE. IN MISSION VIEW PRIMARY US OBJECTIVES ARE TO ENCOURAGE FINNS TO REMOVE OR LIBERALIZE DEPOSIT MEASURE AS SOON AS POSSIBLE AND TO DISSUADE OTHERS FROM TAKING SIMILAR ACTIONS. WE SHOULD, THEREFORE, BE PREPARED TO PROBE RATHER DEEPLY INTO FINNISH SCHEME, ITS RATIONALE, AND POSSIBLE ALTERNATIVE POLICIES, AND SEEK MEANS TO KEEP MULTILATERAL PRESSURE ON FINNS THROUGH, FOR EXAMPLE, PERIODIC REVIEW OF FINNISH ACTION IN OECD. FURTHER OBJECTIVE WOULD BE TO AVOID, INsofar AS POSSIBLE, IDENTIFICATION OF OTHER COUNTRIES WITH FINNISH SITUATION. WE COULD DO THIS BY EMPHASIZING UNIQUE ASPECTS OF LIMITED OFFICIAL USE

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PAGE 02 OECD P 09416 02 OF 02 141738Z

FINNISH PROBLEM (SUCH AS RELATIVELY HIGH EXPORT DEPENDENCE ON SINGLE CYCLICALLY SENSITIVE INDUSTRY) AND BY INDICATING SCEPTICISM THAT ANYONE ELSE LIKELY TO BE IN SIMILAR SITUATION. FINALLY, IT WOULD ALSO PROBABLY BE USEFUL TO AVOID GIVING ANY OTHER COUNTRY OCCASION TO USE OECD TREATMENT OF FINNS AS AN EXCUSE FOR DALLYING ON PLEDGE RENEWAL. IN THIS REGARD IT MIGHT BE HELPFUL TO RECOGNIZE THE ROLE PLAYED BY WEAK WORLD DEMAND IN THE FINNS' TROUBLES, WHILE MAKING CLEAR THAT OTHER FACTORS SEEM MORE RELEVANT IN FINNISH CASE. ACTION REQUESTED: INSTRUCTIONS FOR COUNCIL WORKING PARTY MEETING, INCLUDING WASHINGTON VIEWS ON WHAT COMMENTS WOULD

BE APPROPRIATE REGARDING FINANCING OF FINNISH DEFICIT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CUSTOMS DUTIES, TRADE, IMPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP09416
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750129-0904
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750453/aaaabwwn.tel
Line Count: 171
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 OECD PARIS 07873, 75 07031, 75 06722
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2003 by ShawDG>; APPROVED <20 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINNISH IMPORT DEPOSIT SCHEME
TAGS: ETRD, FI, OECD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006